

Message Text

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TO USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ENRG

SUBJECT: IEA/SEQ WORKING PARTY ON DATA AND ALLOCATION

SUMMARY

1. SECOND DATA/ALLOCATION WORKING PARTY (DAWP) CONSIDERED FURTHER RECOMMENDATIONS OF OIL INDUSTRY WORKING PARTY (OIWP) JANUARY 16 AND 17 IN THE HAGUE. OIWP SUBMITTED EIGHT PAPERS FOR DISCUSSION DAWP DEFERRED TO STOCKS WORKING PARTY PAPER ON EMERGENCY RESERVES AND STOCKS AND AGREED THAT CONCLUSIONS ON OTHER PAPERS SHOULD BE PRESENTED TO GOVERNING BOARD (GB) VIA STANDING GROUP ON EMERGENCY QUESTIONS (SEQ). DAWP CONCLUSIONS WILL BE SUMMARIZED FOR DISCUSSION AT NEXT SEQ MEETING BY IEA/SECRETARIAT.

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DATE OF NEXT DAWP MEETING WILL BE DETERMINED AT SEQ MEETING, JANUARY 30 AND 31, PARIS.

END SUMMARY

2. OIWP PRESENTED EIGHT PAPERS FOR CONSIDERATION BY THE DAWP: (1) DATA, DATA FLOW, AND ALLOCATION PROCEDURES; (2) CRUDE OIL EQUIVALENT AND EXPORT REFINERIES; (3) TRANSFER OF OIL (PRICING AND EXTRAORDINARY COSTS); (4) IEA/INDUSTRY ORGANIZATION; (5) RELATIONSHIPS WITH OTHER BODIES (6) EMERGENCY RESERVES AND STOCKS; (7) SETTLEMENT OF DISPUTES; AND (8) SOME PRINCIPAL COMPANIES IN INTERNATIONAL OIL TRADE.

3. OIWP SPOKEMAN PATRICK GILLAM, BRITISH PETROLEUM, EMPHASIZED THAT INCREASED COSTS RESULTING FROM TRANSFER OF OIL OUT OF NORMAL TRADE PATTERNS WAS AN IMPORTANT ISSUE AND COULD NOT BE IGNORED. GILLAM STRESSED THAT OIWP MEMBERS SUPPORTED THE IEP BUT FELT THAT UNLESS PRICING PROBLEMS WERE RECOGNIZED IN ADVANCE, A CRISIS ALLOCATION MECHANISM COULD NOT WORK. REGARDING IEP STOCK REQUIREMENT, GILLAM STRONGLY RECOMMENDED THAT THE IEP DEFINITION OF EMERGENCY STOCKS BE CLARIFIED CAUTIONING THAT 90 DAYS OF TRUE EMERGENCY STOCKS WILL COST ALL IEP MEMBER COUNTRIES A GREAT DEAL OF MONEY. IF GOVERNMENTS CHOSE TO ACCEPT THE COSTS, THE OIWP FELT THIS DECISION WAS ESSENTIALLY POLITICAL AND IMPLIED GOVERNMENT FINANCING OF STOCK REQUIREMENTS.

4. PAPER 1: DATA, DATA FLOW, AND ALLOCATION PRINCIPLES; OIWP PRESENTED RECOMMENDATIONS FOR CRISIS AND NON-CRISIS DATA FLOWS EMPHASIZING THEIR ASSUMPTION THAT NECESSARY ENABLING LEGISLATION HAD BEEN ENACTED IN ALL IEP COUNTRIES. AN ILLUSTRATIVE EXAMPLE OF OIL ALLOCATION IN A HYPOTHETICAL SUPPLY CURTAILMENT SHOWED THAT 68 PERCENT OF INTERREGIONAL OIL MOVEMENTS WERE PRESENTLY VIA TANKERS PERMITTING FLEXIBLE INTRA AND INTER COMPANY SUPPLY SHIFTS TO ACHIEVE IEP OBJECTIVES. ALTHOUGH QUANTIFICATION OF A SUPPLY SHORTFALL PRESENTED SOME PROBLEMS, OIWP CONCLUDED THAT PARTICIPATING FIRMS SHOULD BE ABLE TO MEET MOST IEP MEMBERS' SUPPLY RIGHTS WITH SHIFTS IN COMPANY SUPPLY
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PLANS OR BY TRADING AMONG COMPANIES AND WITHOUT IEA MANDATED TRANSFERS OF OIL.

5. OIWP REITERATED ITS EARLIER POSITION THAT DURING A CRISIS IT WOULD BE ESSENTIAL THAT OIL COMPANIES PROVIDE SUPPLY/DEMAND DATA, PREFERABLY IN THOUSANDS OF METRIC TONS, FOR A FIVE MONTH PERIOD (I.E. HISTORICAL DATA FOR THE DATA DURING AN EMERGENCY SHOULD BE SUBMITTED TO THE SECRETARIAT BY THE 20TH OF THE MONTH.

6. AFTER WITHDRAWAL OF OIWP REPS FROM MEETING, DAWP BRIEFLY DISCUSSED RECOMMENDATION AND ILLUSTRATIVE EXAMPLE OF CRISIS ALLOCATION. ALL DELS GENERALLY ACCEPTED OIWP

POSITION. UK DEL SUGGESTED THAT COMPANIES MIGHT BE EFFECTED UNEQUALLY IN CRISIS AND SHOULD SOMEHOW SHARE LOSSES SO THAT ALL ARE TREATED EQUALLY. OIWP LATER CLARIFIED THAT

TRANSFERS WOULD BE MADE PRAGMATICALLY WITH EACH COMPANY TRADING IN SUCH A WAY AS TO MAXIMIZE ITS OWN POSITION. EXXON REP STRESSED THAT SIMULTANEOUSLY MAXIMIZING DUAL OBJECTIVES OF OIL ALLOCATION AMONG COUNTRIES AND ALLOCATING COSTS AMONG COMPANIES WOULD RESULT IN MASSIVE SHIFTING OF OIL. THE MATTER OF EQUITABLE TREATMENT FOR OIL COMPANIES AND RELATED ISSUES OF SHARING COSTS AMONG COUNTRIES (ITALIAN PROPOSAL) WAS DISCUSSED BUT LEFT UNRESOLVED (C.F. ARTICLE 9-4). DELEGATIONS WERE CHARGED WITH EXPLORING THESE ISSUES WITHIN THEIR GOVERNMENTS FOR THE NEXT SEQ MEETING.

7. SECRETARIAT REPORTED IT WAS PLANNING TO SEND OUT THE QUESTIONNAIRES DISCUSSED AT LAST SEQ MEETING TO PRINCIPAL OIL COMPANIES IN INTERNATIONAL OIL TRADE THE WEEK OF JANUARY 20. US DEL REQUESTED DELAY IN CONTACTING US NON-MAJOR COMPANIES TO ALLOW TIME FOR FURTHER CONSULTATION AND BRIEFING ON THE IEP. QUESTION OF SECURITY OF DATA UNDER CONSIDERATION BY SECRETARIAT IN CONSULTATION WITH NATIONAL EXPERTS.

8. PAPER 2: CRUDE OIL EQUIVALENTS AND EXPORT REFINERIES. DAWP PROVISIONALLY ACCEPTED THE OIWP RECOMMENDATION THAT ONE TON OF CRUDE OIL BE CONSIDERED EQUIVALENT FOR ALLOCATION PURPOSES.
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TION PURPOSES TO 1.065 TONS OF PRODUCT NOTING US DEL PROPOSAL THAT CRUDE OIL EQUIVALENTS BE DETERMINED ON HEAT CONTENT BASIS RATHER THAN BY WEIGHT. (OIWP REACTED VERY NEGATIVELY ALLEGING HEAT CONTENT FORMULATION TOO COMPLEX FOR ALLOCATION PURPOSES.)

9. DISCUSSION OF EXPORT REFINERIES RAISED ISSUE WHETHER IEP COUNTRIES WITH EXPORT REFINERIES SHOULD RECEIVE CRUDE ALLOCATION FOR DOMESTIC CONSUMPTION PLUS EXPORTS TO OTHER IEP COUNTRIES OR WHETHER CRUDE ALLOCATION SHOULD BE MADE TO RECIPIENT OF PRODUCT FROM EXPORT REFINERY. IN GENERAL, DAWP FELT MAXIMUM FLEXIBILITY SHOULD BE PROVIDED INDUSTRY IN THIS MATTER AND THAT HISTORICAL PRODUCT EXPORT PATTERNS SHOULD BE MAINTAINED. TREATMENT OF REFINERIES IN NON-IEP COUNTRIES WAS LEFT OPEN TO FURTHER CONSIDERATION. (OIWP NOTED THAT PAPERS 1 AND 2 HAVE TO BE CONSIDERED TOGETHER AND THAT EXPORT REFINERIES IN THE CARIBBEAN WERE VITAL TO EFFECTIVE EMERGENCY ALLOCATION.)

10. PAPER 3: TRANSFER OF OIL (PRICING AND EXTRAORDINARY COSTS). THIS SUBJECT EXTENSIVELY DISCUSSED. DAWP AGREED IN GENERAL WITH RECOMMENDATIONS THAT BOTH INTRACOMNY

AND INTERCOMPANY PRICING DURING EMERGENCY ALLOCATION
BE BASED ON MARKET FORCES AND TRADITIONAL PRICING

PRACTICES. DAWP ALSO NOTED THAT DIRECTING INTER-COMPANY
TRANSFER BY IEA DURING A CRISIS HAD FAR REACHING IMPLICA-
TIONS WHICH HAD NOT YET BEEN FULLY CONSIDERED.

11. DAWP AGREED THAT NO "ABNORMAL" PROFITS SHOULD BE
REALIZED BY COMPANIES DURING A CRISIS BUT THAT COMPANIES
SHOULD RECOVER EMERGENCY COST INCREASES. IT WAS RECOG-
NIZED THAT PRICE MONITORING AND POLICIES WOULD VARY FROM
COUNTRY TO COUNTRY AND THAT IEA-WIDE PRICE POLICIES COULD
NOT BE ESTABLISHED.

12. THE PURCHASE OF MARGINAL AMOUNTS OF CRUDE OIL BY
SPECULATORS DURING AN EMERGENCY IN THE SPOT MARKET WAS
RECOGNIZED AS A POTENTIAL ESCALATING FACTOR IN OVER-
ALL CRUDE PRICES WHICH MIGHT LEND ITSELF TO IEA PRICE
COORDINATION. DELS WERE ASKED TO CONSIDER MEASURES
WHICH MIGHT BE TAKEN TO DISCOURAGE THE COMPETITIVE BIDDING
UP OF SPOT MARKET PRICES.

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13. UK DEL STATED REAL PROBLEM THAT OF PRODUCER COUNTRY
TAKE. AT CHAIRMAN'S SUGGESTION, US DEL TOOK UNDER ADVISE-
MENT REQUEST BY UK DEL THAT US PREPARE PAPER ON NEGOTIAT-
ING STRATEGIES WHICH MIGHT BE USED BY IEP COUNTRIES' OIL
COMPANIES DURING THE EMERGENCY TO HOLD DOWN CRUDE COSTS.

14. NETHERLANDS DEL NOTED AND DAWP AGREED TO CONSIDER
FURTHER, POSSIBLE ADVERSE EFFECT OF UNHARMONIZED DOMESTIC
PRICES AND CRUDE COSTS ON ALLOCATION SCHEME WHICH SHOULD
BE MINIMIZED IF POSSIBLE.

15. RE EXTRAORDINARY COSTS, DAWP DISCUSSED THE EXTENT TO
WHICH SUCH COSTS ARE LIKELY TO OCCUR IN AN EMERGENCY AND
CONSIDERED IN DETAIL ISSUE OF WHETHER COMPANIES SHOULD BE
ALLOWED TO RECOVER SUCH COSTS BY CLAIMS AGAINST THE IEA
AS WELL AS COMPANY PROPOSAL FOR IEA ADMINISTERED REIMBURSE-
MENT FUND. ALL DELS AND OIL COMPANIES AGREED THAT STRONG
EFFORT TO REDUCE EXTRAORDINARY COSTS BY INTRA COMPANY, AND
INTER COMPANY SUPPLY SHIFTS SHOULD BE MADE BEFORE IEA
DIRECTED BUY/SELL UNDERTAKEN.

16. MOST DELS AGREED (ON PERSONAL BASIS) EXTRAORDINARY
COSTS SHOULD BE A NATIONAL RATHER THAN IEP RESPONSIBILITY.
UK AND ITALY ARGUED FOR IEP RESPONSIBILITY, NOTING THAT
IEP FORMED FOR PROTECTION OF ALL MEMBERS AND THAT ALL
MEMBERS SHOULD SHARE RISKS INVOLVED. FRG POSITION WAS
THAT EXTRA COSTS SHOULD BE PASSED THROUGH PRICE MECHANISM
AS MUCH AS POSSIBLE.

17. DAWP AGREED THAT, BEFORE REACHING FINAL DECISION, CRI-
TERIA SHOULD BE ESTABLISHED FOR DETERMINING EXTRAORDINARY

COSTS AND MECHANISMS USED FOR RECOVERY. FOR EXAMPLE, EXTRAORDINARY COSTS MIGHT BE DIRECTLY RELATED TO OIL CRISIS AND TO ACTIVITIES OF THE IEA. RECOVERY MECHANISM IS TO BE STUDIED FURTHER.

18. DELS ALSO AGREED THAT ADDITIONAL INFO DESIRABLE ON MAGNITUDE OF EXTRAORDINARY COSTS THAT MIGHT BE INVOLVED, AND ASKED OIWP IF DATA ON EXTRA COSTS INCURRED IN 1973-4 CRISIS COULD BE PROVIDED. OIWP AGREED TO CONSIDER REQUEST CONFIDENTIAL

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NOTING US ANTI-TRUST CONSIDERATIONS IN PROVIDING SUCH DATA AND DIFFICULTY IN RETROACTIVELY OBTAINING IT.

19. A KEY CONCLUSION RESULTING FROM CONSIDERATION OF BOTH PAPERS 1 AND 3 WAS THAT PRIMARY RESPONSIBILITY FOR ALLOCATION DECISIONS WOULD BE IN HANDS OF OIL INDUSTRY. IEA APPROVAL OF CONTEMPLATED INDUSTRY PLANS AND PROGRAMS WOULD BE REQUIRED ONLY IN EVENT ALTERNATIVE COURSES OF ACTION ARE EQUALLY FEASIBLE FROM LOGISTICAL VIEW POINT BUT AT DIFFERENT COSTS TO COMPANIES OR CONTAIN POLITICAL OR OTHER CONSIDERATIONS WHICH ARE BEYOND COMPANIES PURVIEW.

20. PAPER 4: ORGANIZATION. IN ACCORDANCE WITH GOVERNING BOARD DECISIONS, OIWP RECOMMENDED SINGLE INDUSTRY ADVISORY BOARD (IAB) WITH APPROPRIATELY COMPOSED AD HOC GROUPS TO HANDLE SPECIFIC EMERGENCY PROBLEMS. CHAIRMAN/ SECRETARIAT WILL PREPARE DRAFT FOR CONSIDERATION BY THE GOVERNING BOARD OF IEA/IABFUNCTION AND RESPONSIBILITIES.

21. PAPER 5: RELATIONSHIPS WITH OTHER BODIES.OIWP PRESENTED NO PROPOSALS BEYOND THOSE PREVIOUSLY PRESENTED AT THE FIRST DAWP MEETING.

22. PAPER 6: EMERGENCY RESERVES AND STOCKS. THIS PAPER PASSED TO AD HOC GROUP ON STOCKS FOR ITS JANUARY 31 MEETING. OIWP WILL SUBMIT REPORT ON THE STOCK QUESTION.

23. PAPER 7: SETTLEMENT OF DISPUTES. DAWP AGREED THIS WAS AN IMPORTANT ISSUE, BUT OBSERVED THAT IN TERMS OF PRIORITY IT WAS SECONDARY TO ALLOCATION, DATA, PRICES AND EXTRAORDINARY COST ISSUES. DAWP ALSO AGREED ISSUE OF DISPUTE SETTLEMENT IN EMERGENCIES RAISED BY OIWP WAS PART OF A BROADER SET OF ISSUES REGARDING SETTLEMENT OF DISPUTES WHICH MIGHT ARISE UNDER THE IEP, AND AGREED TO RECOMMEND THAT THIS MATTER BE DISCUSSED AT THE NEXT GB MEETING.

24. PAPER 8: SOME PRINCIPAL COMPANIES IN INTERNATIONAL OIL TRADE. THE DAWP GROUP PROVISIONALLY ACCEPTED LIST OF 32 COMPANIES CONTAINED IN THE OIWP REPORT. KISSINGER

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